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FM AMEMBASSY BERLIN
TO RUEHC/SECSTATE WASHDC PRIORITY 2132
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 03 BERLIN 001244

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E.O. 12958: DECL: 09/10/2018
TAGS: [PGOV](#) [PREL](#) [ENRG](#) [OVIP](#) [GM](#)
SUBJECT: LUGAR CODEL: GERMANS EMPHASIZE NEED FOR
COOPERATION WITH RUSSIANS ON ENERGY

Classified By: Classified by Deputy Chief of Mission John M. Koenig for
reasons 1.4 (b) & (d)

¶1. (C) Begin Summary: During Senator Lugar's September 1-2 visit to Berlin, which focused on energy security, the range of interlocutors (government, business, parliament) told Lugar that Germany has had a long history of cooperation with Russia on energy, that Russia consistently has been a reliable partner, and that Germany wants and expects this mutually beneficial relationship to continue. The recent crisis in Georgia, while a cause for concern, would not alter Germany's energy landscape. This remains Germany's reality in assessing next steps with both Russia and Georgia. On the important issue of gas supplies, Germany expects the Nordstream project to remain on track and will continue, in principle, to support the Nabucco pipeline project even though the economic case for Nabucco remains highly questionable. End Summary.

¶2. (C) Senator Lugar and four staff members of the Senate Foreign Relations Committee visited Berlin September 1-2 and met with Foreign Minister Steinmeier (privately), MFA State Secretary Silberberg (in a separate lunch meeting), senior representatives of the three major energy companies in Germany (RWE, E.ON/Ruhrgas, and Wintershall), members of the Bundestag Committees on Energy and Foreign Affairs, Ministry of Environment State Secretary Machnig and Ministry of Agriculture State Secretary Lindemann. Although the central theme of the visit was energy security, Senator Lugar also touched on the Georgia crisis, climate change, and global food security.

Georgia

¶3. (C) German government officials (FM State Secretary Silberberg and Chancellery Chief of Staff de Maiziere) emphasized the importance of working cooperatively within the EU on Georgia. Silberberg said the EU/Russia relationship "can't remain the same" and stressed the need for international mechanisms such as the EU's observer mission to which Germany was contributing 15 members. On the economic side, Germany was working closely within the EU to "re-launch the Georgian economy" and discussions would commence on forging closer economic ties with Georgia, including a possible free trade arrangement. The channel with Russia needed to "remain open", but it could not be business as usual. De Maiziere highlighted the difficulties in bringing the EU together on Georgia ("when we use strong words, we are not together; when we use weak words we are together") and noted the division of labor taking place between the French and the Germans with the French working on the larger EU members and the Germans on the smaller ones (read: Baltics) to calm fears and forge consensus. De Maiziere recounted frustration that the Russians are able "to sit and wait". He expressed strong relief that Russia had not found anyone to recognize Abkhazia and South Ossetia and noted that economic

realities in Russia (investor capital flight, Russia's need to sell its gas to Europe) would help moderate extremes in Russian behavior.

Energy Security: We Need Russia

¶4. (C) Both the MFA and Chancellery pointed to Germany's long-term history with Russian gas. The MFA emphasized that "Germany has never had a problem" and pointed to only three instances of disruption of Russian gas to Europe (Ukraine in 2005; Belarus and the Czech Republic more recently) and in the case of Ukraine, the MFA argued that the dispute centered around selling at world market prices which Russia had been encouraged to do during its WTO accession talks. In contrast, the Chancellery emphasized strongly the need for diversifying supply of gas in light of Russia's behavior ("We do not want to be so dependent on Russian natural gas") and questioned the U.S. opposition to Germany's initiative to create IRENA (The International Renewable Energy Agency) which de Maiziere argued would help further the goal of diversifying energy supply.

¶5. (C) Lugar's meetings with senior representatives of Germany's three major energy companies reinforced strongly our appreciation that key Germans view Russia as a reliable and essential partner in supplying Germany with natural gas.

-- RWE: as a member of the Nabucco consortium, RWE's Chief Commercial Officer Stefan Judisch emphasized the challenges of the Nabucco pipeline, but noted that RWE remains committed to the project. Judisch mentioned the difficulties in securing transit arrangements with Turkey, pointing to the need for an independent organization to serve as an "arbiter" of supply. Judisch also acknowledged the challenges in supplying the Nabucco pipeline; he referred to Kazakhstan, Turkmenistan, Azerbaijan, and Iraq further down the road as possible though not committed suppliers. The largest potential supplier (Iran) was a political no-go. He opined that Nabucco will be built "only if there are credible gas commitments and that today these are insufficient." He encouraged U.S. officials to lean on the Iraqi government to pass the energy legislation that could make Iraq a potential supplier. Turkmenistan, he added, was a questionable supplier as Russia was now offering a desirable price for Turkmenistan gas, but Judisch cautioned that once the "Nabucco threat" went away, Russia would probably play "hardball with Turkmenistan"; therefore, Turkmenistan needed diversity to protect its own bargaining power. Judisch also held out the potential for Egyptian and Saudi gas for Nabucco, but said the "U.S. needed to play a role in pressing Egypt to pursue "responsible energy policies".

-- E.ON/Ruhrgas -- In Lugar's meeting with E.ON, E.ON Board Member Dr. Jochen Weise argued strongly for Russia as a reliable and dependable partner, blamed the Ukrainians for lack of transparency in their energy policies, and encouraged further upstream investment into Russia which he emphasized would strengthen German/Russian mutual dependence. That mutual dependence, he argued, "was like a marriage" and that meant that Russia needed Germany as much as Germany needed Russia. He underscored his belief that Russian actions in supplying Europe with gas have been driven more "by a commercial rationale than political motives", but conceded that the two are sometimes intertwined. Ultimately, he contended, greater mutual dependence would lead to a moderation of Russia's behavior.

--Wintershall -- Wintershall Board Member Dr. Reiner Seele delivered a similarly strong message regarding the German/Russian energy relationship, but took the argument even a step further. He acknowledged that doing business with Russia was still premised on factors diverged widely from transparency and normal business practices and blamed Shell and BP for the problems they have encountered in Russia. Wintershall's relations with Gazprom/Russia had been built carefully over many years through the cultivation of personal relationships. These relationships were key to Wintershall's long term contracts and ensured that Russia

would remain a reliable partner to Germany. Steele argued that doing business with Russia Russian-style solidified the relationship; novice newcomers to the Russian energy market do not understand these dynamics. Like E.ON, Wintershall argued that Gazprom makes business decisions on economic calculations, but conceded that the politics of energy was part of "the business calculation" and needed to be factored in making commercial risk assessments.

Food Security/Biotechnology: Problem is the Consumer

16. (C) On a separate topic, Lugar met MinAg State Secretary Lindemann to press the importance of opening international markets to biotech products -- particularly in the third world where food scarcity and food prices have escalated into a food security problem. Senator Lugar pointed out that some developing countries have been reluctant to accept food aid assistance from the World Food Program (WFP) because the EU biotech policy has led them to believe that biotech is unsafe; he contended that this false perception contributed to the hunger situation in the developing world. Lindemann explained that consumer resistance and politics made it difficult for biotech to be more accepted in Germany and cited the upcoming local elections in Bavaria where farmers are an important constituent group. Despite the opposition, Lindemann agreed that new technology should play a role in improving hunger and nutrition in third world countries. Lindemann acknowledged that the EU's adventitious presence regulation is unreasonable, but stated that the EU is trying to revise regulations that will enable biotech derived feed to be imported into the EU, particularly the next generation of Roundup Ready soybeans (RR2). Lindemann strongly emphasized the need to develop harmonized global standards to facilitate the use of biotech products. Lindemann also emphasized the need to reform the FAO and sought U.S. support, and also expressed his disappointment with the results of the WTO trade negotiations.

Comment

17. (C) While German views on both Georgia and energy security were somewhat predictable, the depth and strength of Germany industry convictions on the merits of doing business with Russia were a sober reminder of the expedient pragmatism that drives German energy interests in Russia -- a pragmatism that undoubtedly helps shape German policy on both the Georgia crisis and the EU's political response. End Comment
TIMKEN JR